



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Sierra Vista Unified School District No. 68

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

January 20, 2006

Governing Board
Sierra Vista Unified School District No. 68
3555 East Fry Boulevard
Sierra Vista, AZ 85635-2998

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2004, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregg Rickert, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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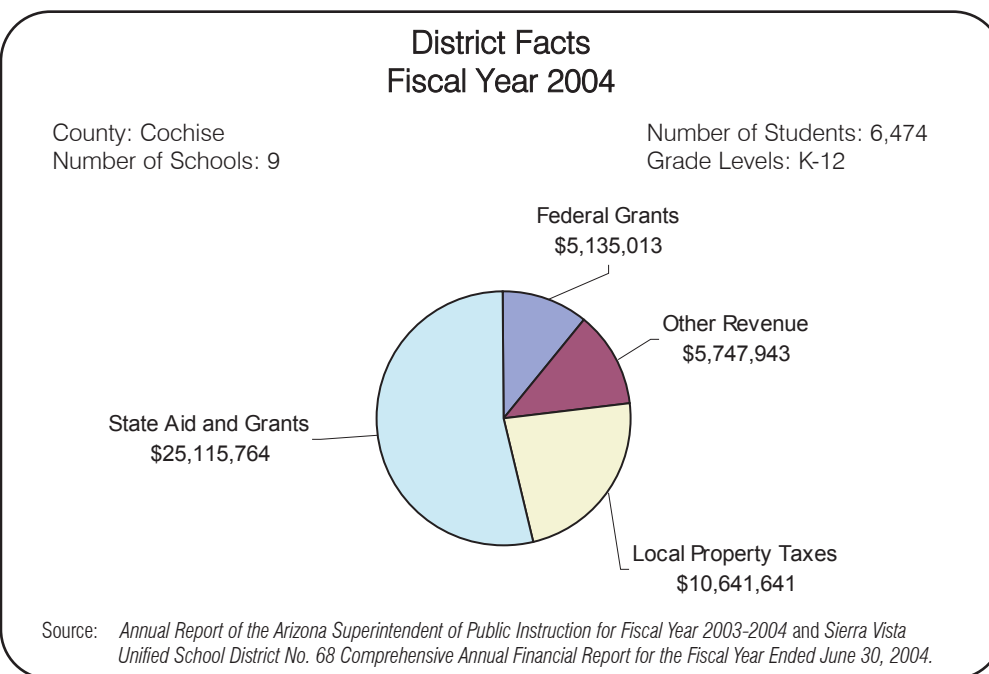
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INTRODUCTION

Sierra Vista Unified School District No. 68 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$46.6 million it received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2004, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always

The District did not always follow competitive purchasing requirements and, therefore, could not ensure it received the best value for the public monies it spent.

follow the procurement rules and the USFR guidelines. Specifically, the District did not always issue requests for proposals when required, document specific proposal requirements, and give adequate notice for invitations for bids.

In addition, for an emergency purchase, the District did not obtain written authorization documenting the basis for the emergency and did not provide such documentation to the Governing Board at its next meeting. Finally, the District did not obtain oral price quotations for all purchases that required them.

Recommendations

To strengthen controls over competitive purchasing and to comply with the School District Procurement Rules and USFR guidelines, the District should:

- Issue invitations for bids or requests for proposals for construction, materials, or services exceeding \$33,689. Give notice as required by the School District Procurement Rules.
- Obtain written governing board determinations that issuing invitations for bids was not practical or not advantageous to the District before issuing requests for proposals. Also, document the specific reasons, in writing, that a single award was not advantageous to the District when awards were made to multiple vendors.
- Obtain written authorization for emergency purchases that are limited to the materials, services, or construction necessary to satisfy the emergency. Also, provide documentation to the Governing Board at its next meeting as to the basis of the emergency, vendor selection, and why the price paid was reasonable.
- Obtain oral price quotations from at least three vendors for purchases that individually or in the aggregate are estimated to cost between \$5,000 and \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

The District's controls over cash receipts and bank accounts should be strengthened

The District receives cash from various sources, including community school, auxiliary operations, and student activities, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash, ensure that cash is promptly and accurately recorded and deposited, and that bank accounts are used as authorized by Arizona Revised Statutes (A.R.S.). However, the District did not have effective internal controls for collecting and spending these monies. For example, cash receipt forms were not always prepared for community school receipts, and documentation to support auxiliary operations and student activities cash receipts was not always adequately prepared or retained. In addition, the District inappropriately issued a check from the Miscellaneous Receipts clearing account to the Auxiliary Operations Fund bank account and did not reconcile its Employee Withholdings bank account in a timely manner. Finally, the District did not always verify that the Auxiliary Operations and Student Activities Fund checkbook balances used for bank reconciliations agreed to the amounts reported on the District's lists of cash balances for auxiliary operations and student activities.

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

Recommendations

To help strengthen controls over cash receipts, disbursements, and reconciliations, the District should:

Cash Receipts

- Prepare prenumbered and numerically controlled cash receipt forms for community school monies received.
- Use prenumbered tickets and ticket logs to document sales at athletic events and prepare cash collection reports and daily summary reports to reconcile sales to cash collected and deposited into the Auxiliary Operations Fund bank account.
- Use prenumbered cash receipt forms and cash collection reports to reconcile cash collected to sales at student activities events. For student activities events where it is not practical to prepare cash receipt forms, sell tickets, or count items before and after the sale, such as for bake sales, cash collection reports should still be prepared to document cash collected.

Bank reconciliation procedures are outlined on USFR page VI-C-6.

Disbursements

- Remit monies in the Miscellaneous Receipts clearing account to the county treasurer at least monthly. No other disbursements are allowed under statute from the Miscellaneous Receipts clearing account.

Reconciliations

- Prepare complete and accurate monthly bank reconciliations for the Employee Withholdings bank account to reconcile bank and checkbook balances.
- Verify that the Auxiliary Operations and Student Activities Fund bank reconciliation checkbook balances agree with the cash balance amounts recorded on the applicable list of cash balances.

The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on average daily membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not accomplish

this objective. Specifically, entry dates on student entry forms did not always agree with the teachers' attendance records, absences in the teachers' attendance records did not always agree with the

The District may not have received the appropriate amount of funding because the District did not report membership and absences correctly.

District's computerized attendance system, and membership on the computerized system was not always calculated and reported accurately to ADE. In addition, the District did not always calculate partial-day absences correctly or document that students with ten consecutive unexcused absences were withdrawn as of the first day of nonattendance.

Recommendations

The following procedures can help ensure the District receives the correct amount of state and local funding:

- Require a second employee to verify that student entry and withdrawal dates on the forms agree with those in the teachers' attendance records.
- Require a second employee to verify that membership and absences reported to ADE agree with the District's attendance records, including teachers' attendance registers, if prepared.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

- Record kindergarten students, with total instruction time between 346 and 692 hours per year, as absent if in attendance for less than 3/4 of the day.
- Record attendance for students enrolled in first through eighth grades, if attendance is based on half days, as follows:
 - Attendance of at least 3/4 of the instructional time scheduled for the day should be counted as a full day of attendance.
 - Attendance for at least 1/2, but less than 3/4, of the instructional time scheduled for the day should be counted as a 1/2 day of attendance.
- Withdraw students with ten consecutive unexcused absences as of the first day of nonattendance and retain documentation.

The District should maintain and report accurate financial information

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records, budgets, and annual financial report (AFR) are accurate and complete. However, the District did not fully accomplish this objective. Specifically, the District did not properly calculate amounts to be carried forward for its Classroom Site Fund budget, and did not ensure that budget amounts on the District's AFR agreed to the District's expenditure budget for several funds. Further, the District overstated approved daily route miles and eligible students on its Transportation Route Report submitted to ADE.

Recommendations

The following policies and procedures can help the District maintain and report accurate financial information:

- Carry forward the unexpended budget balances for each of the three Classroom Site Funds to the following year's budget in accordance with A.R.S. §15-978.
- Require a second employee to verify that amounts reported on the AFR agree with the District's accounting records and budget before submitting it to ADE.
- Prepare and retain adequate documentation to support the number of routes, route miles traveled, and the number of eligible students transported, and ensure that these numbers are reported correctly to ADE.